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DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

Oil In Angola

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October 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1970

INTELLIGENCE MEMORANDUM

Oil In Angola

Introduction

Oil production in Angola has reached a substantial scale. After years of exploration, the US Gulf Oil Corporation discovered relatively large reserves of oil in the Cabinda District, and production now is about 100,000 barrels per day. This memorandum describes the development of Angola's petroleum industry and assesses its benefits to Angola and Portugal.

Background

1. The discovery and development of major oil deposits in Angola is giving the Portuguese province an important new export. In 1969, exports totaled about $300 million, of which coffee contributed more than $100 million; diamonds, the leading mineral export, about $56 million; and iron ore about $38 million. While crude oil exports that year were only about $15 million, by 1972 they probably will total about $100 million, vying with coffee for first place.

2. The search for oil began in the 1920s, but commercially exploitable quantities were not found until 1955, when discoveries were made near Luanda,

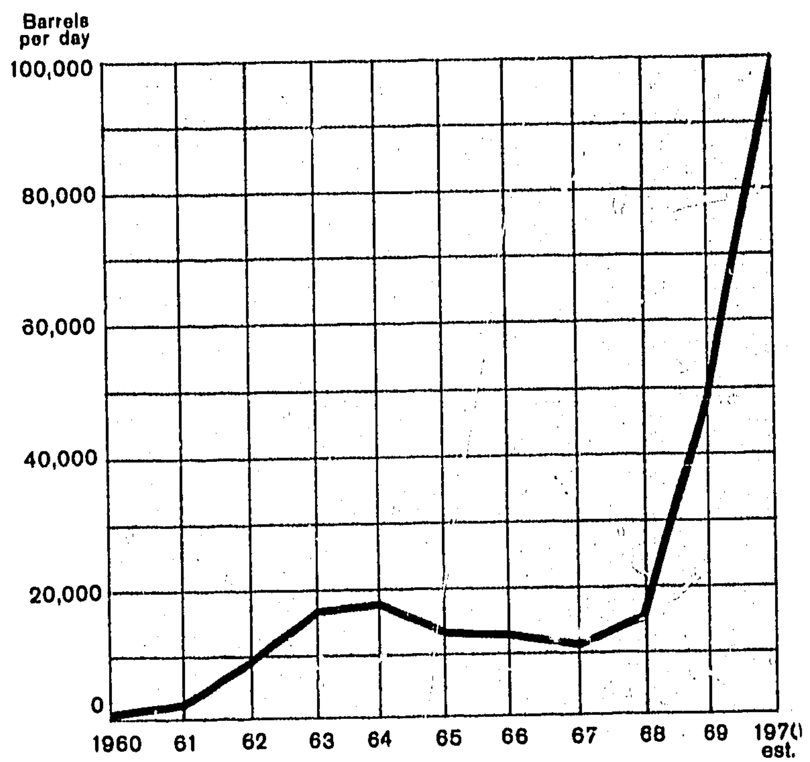
Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

Angola's capital. Production from the Luanda wells increased steadily, reaching more than 18,000 barrels per day (b/d) in 1964, but then dropped sharply to 11,000 b/d by 1967 because of technical difficulties. Angola had been self-sufficient in crude oil since the early 1960s, except in 1967 when the territory was forced to import a little oil to meet its requirements of about 13,000 b/d.

3. Gulf's offshore wells at Cabinda* came into production in 1968, and Angola's crude output averaged almost 50,000 b/d in 1969, providing sizable exports for the first time. Estimated production in 1970 will average 100,000 b/d, of which about 80,000 b/d will be available for export (see Figure 1).

Figure 1

Angola: Crude Oil Production



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Although physically separated from Angola, Cabinda is one of the province's districts and is administered from Luanda.

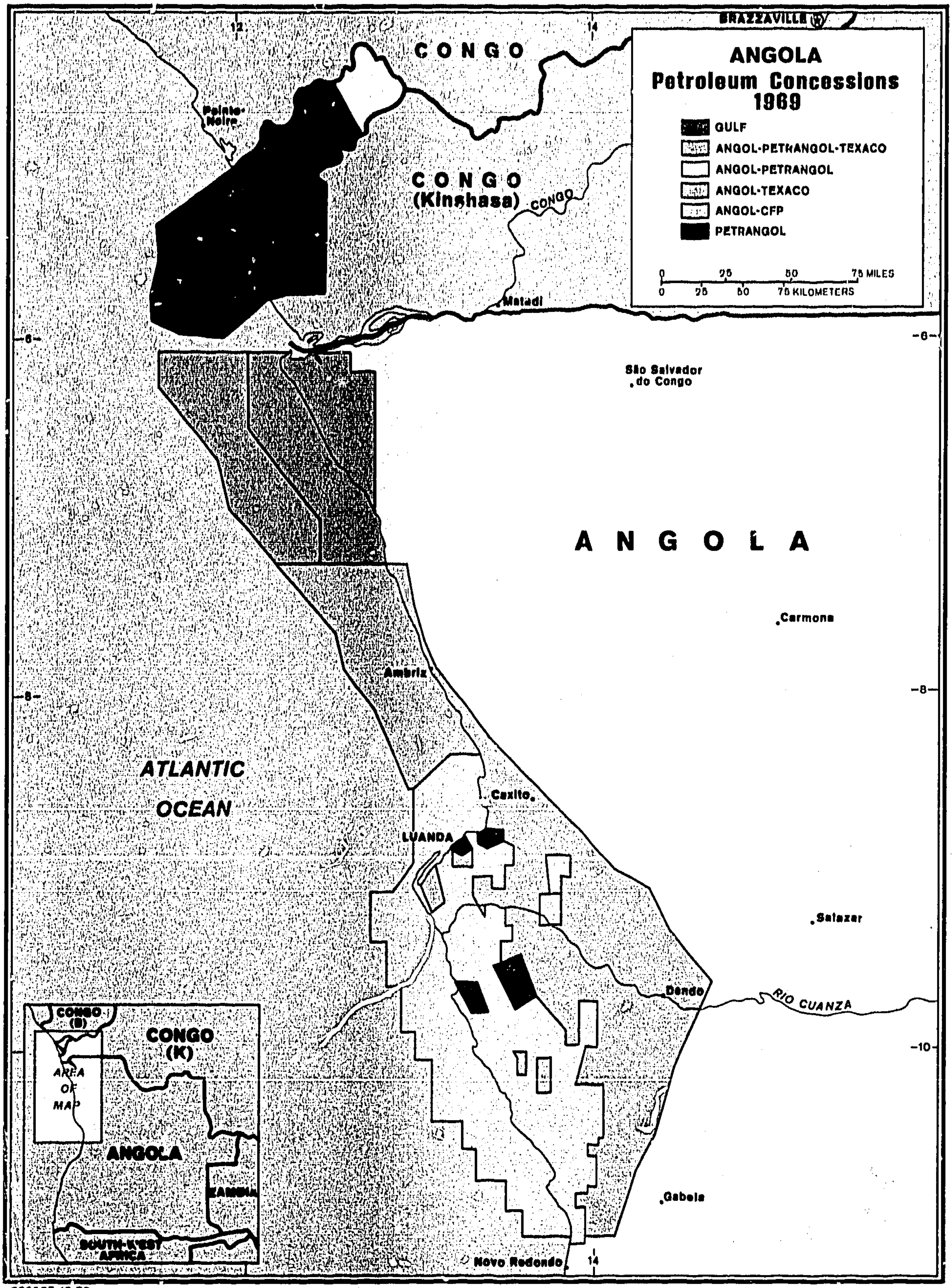
The Oil Industry

4. Although a number of firms have applied for exploration concessions, only a few companies are active at present. The Belgian firm, Petrofina, the first to strike oil near Luanda in 1955, joined with Portuguese private interests to form Petrangol, which controls the oil concessions around Luanda and is the only producing company in Angola other than Gulf. Petrangol also shares two additional concessions near the mouth of the Congo River with Angol, a Portuguese firm, and the US-based Texaco. Petrangol began drilling at this site in 1969, and Texaco's operations probably now are under way. Exploration and drilling by Angol, both in association with Petrangol in the Western Cuanza Basin and inner Congo Basin zones as well as in its own concessions covering the Ambriz, Eastern Cuanza, and outer Congo areas are progressing at a good pace. Exploratory work also is in progress at two concessions held by the French firm Compagnie Française de Pétroles (CFP) and Angol (see Figure 2).

5. The most important oil discoveries have been made by Cabinda Gulf Oil, a subsidiary of the US Gulf Oil Corporation in the Cabinda District of Angola. After eight years of unsuccessful onshore exploration, the company turned to offshore drilling in 1966, and later that year discovered reserves estimated at 2 billion barrels of low sulfur oil (see Figure 2). Production began late in 1968 at a rate of 30,000 b/d and was to reach 150,000 b/d in two years.*

6. Gulf has had problems. Although production began as planned, difficulties were encountered with the oil's heavy wax content and at times with excessive salt. Moreover, inadequate storage facilities have forced cutbacks in pumping pending arrival of tankers. Despite these setbacks, production continued to rise until in March 1970 it reached the level of 100,000 b/d. Production dropped to about

** Cabinda Gulf Oil's facilities include several gathering stations, which pump the crude oil through a 20-inch pipe to five storage tanks with a total capacity of 1,370,000 barrels. The tanks are located on a bluff overlooking the shore at Cabinda, and the oil is gravity fed through a 36-inch pipeline to tankers up to 100,000 tons anchored some 8.5 miles offshore.*



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90,000 b/d in July, however, and company officials now predict that 150,000 b/d will not be reached until mid-1971 rather than in late 1970 as originally planned. The officials state that inadequate overseas refinery facilities capable of handling Cabinda's waxy crude oil is the reason for production cutbacks. Nevertheless, the size of the oil reserves and the quality of the crude oil seem likely to ensure large increases in the future, well beyond 150,000 b/d.

7. Angola's one refinery is large enough to meet domestic requirements. The refinery, owned and operated by Petrangol, was built at Luanda in 1958 and processes that company's crude oil. The original capacity of 4,000 b/d was increased to 13,000 b/d in 1962, and expansion now under way will bring annual capacity to 20,000 b/d during 1971. A second refinery, with a 13,000 b/d capacity, is to be constructed at Lobito and will open in 1975. The two refineries should keep Angola self-sufficient in its domestic and bunkering fuel requirements through the 1970s. A small refinery also has been built at Cabinda by Gulf to support its own operations. Otherwise, all Cabinda crude oil is exported to Gulf's facilities in Europe.

Impact of Oil on Angola and Portugal

8. The estimated $250 million invested through 1970 by the oil companies is the largest investment ever made by one industry in Angola. It far exceeds the $100 million invested in the Cassinga iron ore mines in recent years. Gulf alone will have invested about $150 million, almost as much as its Nigerian investments of $160 million, but very little has been spent in Angola. Most investment has been for equipment and drilling and maintenance services imported from abroad, and local expenditures have been mostly for food and for purchases of consumer items by workers in the oilfields. Few new industries have developed to support the oil industry, primarily because its needs are not large and are easily met by imports.

9. The government's revenues from oil will increase sharply during the next few years. In 1970, Angola's receipts from Gulf's operation will amount to only about $7 million, primarily because Gulf's major exploration and development costs still are being written off. These tax advantages should end

by 1971, however, and Angola's receipts are expected to increase significantly in that year. When Gulf's Cabinda output reaches its anticipated level of 150,000 b/d, the company's tax, royalty, and annual rent payments to Angola -- based on posted price of $1.59 per barrel -- could approximate some $44 million, equivalent to about 14% of the government's expenditures for 1970. Revenues from other oil companies, as well as from possible increased production from Gulf's future operations, naturally would boost Angola's receipts even more.

10. Angola customarily has a balance-of-payments deficit, which in 1968 totaled $29.9 million (see the table). In that year, the customary surplus in its accounts with countries outside the Escudo Monetary Zone* was about $40.5 million, but this surplus was more than offset by the usual deficit with the Escudo Zone, which totaled $70.4 million. The largest deficit occurs in the trade account with the Escudo Zone and is caused primarily by heavy imports from Portugal. Angola's foreign exchange earnings from the oil industry should total about $50 million annually in 1972, which would create a favorable balance of payments if not drained off by increases in imports and other transactions.

11. Portugal clearly will also gain from Angola's oil industry earnings. As with other Escudo Monetary Zone members, Angola's foreign transactions and currency are managed by Metropolitan monetary authorities, and all of Angola's foreign exchange is held in Portugal. By controlling Angola's imports from countries outside the Escudo Monetary Zone and by treating Angola as a captive market for Portuguese exports, Lisbon can determine the province's foreign exchange expenditures. Also, Portugal can insist that Angola assume a large part of its development and defense costs. Portugal can be expected to take advantage of some or all of these options. Lisbon announced some time ago that the territory's own participation in its development and defense expenditures would be increased greatly during the Portuguese

* *Comprised of Portugal and its overseas provinces, the Escudo Monetary Zone has a centralized development plan, a common currency (the Escudo) and payments system, a quasi common market, and a well-integrated credit system.*

Angola's Balance of Payments
1968

Million US $

	Escudo Zone	Outside Escudo Zone	Total
Merchandise	-53.9	18.8	-35.1
Travel	-12.8	-1.0	-13.8
Transportation	-8.8	11.9	3.1
Insurance	-1.0	0.1	-0.9
Income on investments	-15.2	-3.4	-18.6
Government	25.7	-0.2	25.5
Miscellaneous services	-3.2	8.9	5.7
Private transfers	-12.2	-0.5	-12.7
Private capital	9.6	5.9	15.5
Public capital	1.4	0	1.4
Balance	-70.4	40.5	-29.9

Third Plan (1968-73). Consequently, revenues from oil can be expected to be used to substitute for some of Portugal's expenditures in Angola, which are now about $110 million per year -- $30 million in economic assistance and some $80 million in military assistance.

12. Portugal also will benefit from having its own source of crude oil. Under existing arrangements with the oil companies, Portugal has the option of purchasing about 37% of Angola's oil. The territory could meet the Metropole's current consumption requirements of 75,000 b/d in the near future and even immediately if the 37% limit were raised.

13. The Angolan people -- even those in Cabinda -- are not likely to benefit much from the oil industry, at least for a few years. Most of the 1,500 workers hired to build Gulf's facilities have since been laid off, and the economic boom in Cabinda that accompanied the construction activity has waned. The oil industry is a small employer, and most of the skilled positions have been filled with Americans or European Portuguese. Few blacks are being trained

to handle technical jobs. Expenditures by foreigners in Cabinda will benefit some of the local merchants, but a large portion of the consumer goods required by the oil workers still can be supplied only by imports.

Conclusions

14. Oil production from the newly developed fields off the Cabinda coast has reached 100,000 b/d and will probably greatly exceed this level in the future. Within a few years, oil will become Angola's largest export by far and a major source of government income. It is likely, however, that these earnin s will be used more to defray Portugal's expenses in Angola than to accelerate the area's economic development.